



MAR27'09 PM 2:23 BOARD

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Office of the President

March 24, 2009

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on ANPR, Part 704
Corporate Credit Unions

Dear Ms. Rudd:

Navy Federal Credit Union provides the following comments on the National Credit Union Administration's (NCUA) Advance Notice of Proposed Rulemaking (ANPR) concerning its evaluation and reconsideration of the role of corporate credit unions.

Our view is the natural person credit union industry no longer needs the corporates in their current form and that any corporate credit union structure that survives should be funded and insured separately only by those who use them. NCUA must commit not to use the NCUSIF to support any future corporate credit union structure.

Already most of the larger credit unions, including Navy Federal, do not need or use the services of the corporates. Additionally, there are many competitively priced alternatives for investments, payments and liquidity management readily available to smaller credit unions. We believe the industry would be better served by eliminating the corporate credit union system. If, however, NCUA and the smaller credit unions require a credit union owned entity for certain financial activities, these specialized entities could provide services through a separate, non-NCUSIF insured CUSO. NCUA can create a framework for providing the industry access to the services it needs while also supporting the ongoing financial stability of natural person credit unions.

If required, we recommend separating these activities into two separate CUSOs, one focused solely on payment services and the other on investment management. These CUSOs would provide services on a national scale to all credit unions. Separating these businesses ensures management is not motivated to take risks beyond their fundamental purpose (i.e., take risk in one part of the business to supplement another).

a) Payment systems

One entity would be strictly limited to operating a payment system with no authority to engage in other services. While we believe sufficient earnings potential exists to

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support a payments business, there is great efficiency in scale. We suggest NCUA explore other business models such as a creating a cooperative of the larger credit unions who already have payment processing expertise.

b) Investment Management

A separate entity would operate an investment management business to provide expertise and scale to smaller credit unions. This business would be similar to a mutual fund where participating credit unions share in the risk and returns of the fund, net of any operating expenses. To limit the risk to those credit unions, we strongly recommend restricting the investment options to those now afforded to natural person credit unions. Additionally, we recommend management adopt a more conservative stance towards risk management by not exclusively relying on NRSRO ratings for securities, but rather, risk-weighting capital requirements based on the underlying asset quality. We also support rigorous stress testing for credit, liquidity and interest rate risk.

Since the corporate credit union system did not provide material amounts of borrowing capacity to smaller credit unions, we suggest NCUA explore other business models for liquidity management such as creating a cooperative of the larger credit unions that have the balance sheet capacity to provide loans to the industry. Additionally, NCUA should grant natural person credit unions greater latitude to accept non-member deposits thereby increasing the liquidity within the natural person credit union system.

Finally, we believe capital requirements should always be commensurate with the level of risk taken. We recommend adopting a risk-based capital structure consistent with other federally regulated financial institutions. We also believe the capitalization of the aforementioned separate businesses should be provided by those credit unions that use the services, similar to a CUSO framework. Therefore, participating credit unions bear all risk in the event of failure.

If you have questions, please contact Bill Briscoe, Vice President, Compliance & Public Policy, at (703) 255-7496.

Sincerely,



Cutler Dawson
President/CEO